

Statement of the

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U.S. Department of Health and Human Services (HHS)

on

The Community Living Assistance Services and Supports Act (CLASS)

before

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Chairmen Pitts and Stearns, Ranking Members Pallone and DeGette, and Members of the Subcommittees, thank you for the opportunity to discuss the Community Living Assistance Services and Supports Act or the CLASS Act.

As our population ages, there is an increasingly urgent need to find effective ways to help Americans prepare for – and finance – their individual long-term care needs. Almost seven out of ten people turning age 65 today will need some help with daily living activities at some point in their remaining years. While most people who need long-term care are in their 70s and 80s, many younger people, particularly those living with a significant disability, also may need assistance. Forty percent of long-term care users today are between the ages of 18 and 64.

Long-term care is expensive, and can quickly wipe out hardworking families' savings. While costs for nursing home care can vary widely, they average about \$6,500 a month, or anywhere from \$70,000 to \$80,000 a year. People who receive long-term care services at home spend an average of \$1,800 a month. The average lifetime long-term care spending for a 65 year old is \$47,000; 16 percent will spend \$100,000 and 5 percent will spend \$250,000. Nationwide, the median annual cost of a nursing home in 2010 was \$75,000; room and board in an assisted living facility, with no additional help, was \$37,500; an attendant that provides home care and no medical tasks, like the dispensing of medication, is paid approximately \$19 an hour. These expenses are left to America's seniors and people with disabilities (and their adult children) to pay for out of pocket until their pockets are all but empty.

As this Committee knows well, Medicare only covers short-term and limited long-term care services, and the Medicaid safety net is only available to those who have depleted virtually all their resources as a result of being frail or suffering from dementia. Today, there are many

Americans with disabilities who want to and are able to work and thereby maintain independence and contribute financially to their families. However, if they depend upon an attendant to drive them to their job or help them shop, use the toilet, or bathe, they must have enough additional financial resources to pay for such assistance, or have low enough incomes to qualify for Medicaid.

Few private mechanisms are available to help people plan ahead to pay for their future care. Long-term care insurance, by far the most popular private option available, can be costly and difficult to purchase, particularly for those with pre-existing health conditions or disabilities. Less than three percent of Americans currently have a long-term care policy. For workers who already experience a disability, or pre-existing condition, the options are even more limited due to underwriting.

The status quo is unacceptable for those with disabilities or those who want to remain financially independent in the future, without government assistance, and their families. For that reason, Congress created the CLASS program. In passing the CLASS Act, Congress sought to establish a voluntary insurance program for American workers to help them pay for long-term care services and supports that they may need in the future. The program would help those choosing to participate in the program live independently in their communities.

The CLASS Act establishes solvency and self-funding as central components of the program. To that end, Congress made clear that no taxpayer funds may be used to pay benefits and that the program must be solvent over a 75-year period. The CLASS program's distinguishing features include an offer of lifetime benefits, a prohibition on underwriting, and the availability of a cash benefit.

We agree with the core principles of the statute regarding solvency and self-funding. For that reason, Secretary Sebelius and I stated on a number of occasions that the Department would not go forward with implementing the CLASS program unless we could identify a benefit plan that was actuarially solvent over the next 75 years and consistent with the other statutory requirements of the CLASS Act.

Over the last nineteen months, since passage of the CLASS Act, HHS has worked steadily to find a financially sustainable model for CLASS. We conducted substantial analysis of the CLASS statute and a wide array of possible implementation options for a long-term care insurance program that are consistent with the requirements Congress laid out in the CLASS Act. Secretary Sebelius charged my office, the Assistant Secretary for Planning and Evaluation, and the Office of the General Counsel with performing a broad and thorough analysis to design potential benefit plans and to determine if those plans met the twin tests of solvency and consistency with the statute. We examined the long-term care market, modeled possible plan designs, and studied the CLASS statute, consulting at every step of the way with actuaries, including an in-house actuary and two outside actuarial firms, insurers, and consumer groups. We subjected our actuarial modeling to expert peer review and subjected our potential benefit plans to thorough legal review.

On October 14, 2011, we submitted to Congress a 48-page report and over 450 pages of appendices (<http://aspe.hhs.gov/daltcp/reports/2011/class/index.shtml>) describing the results of actuarial and policy analyses of the CLASS Act and the legal analysis of various benefit plan options. Recognizing the enormous need in this country for better long-term care insurance options, we cast as wide a net as possible in searching for a model that could succeed. We looked at a broad range of approaches. When it became clear that benefit plans consistent with

the plain language of the statute would not meet the solvency test, we looked at other potential benefit design options. But, at this time and as the report shows, we have not identified a way to make CLASS sustainable, legal and attractive to potential buyers at this time. For all of us working on this urgently needed program, it was a very difficult conclusion, but one we had to make in an effort to be as transparent and accountable as possible with Congress and, most importantly, to those who would be counting on this program if it were launched.

It is crucial to recognize that this does not affect the rest of the Affordable Care Act. The Department, along with our colleagues in other Departments across the Administration, are hard at work implementing the provisions of the law that will provide coverage for millions of Americans who are uninsured, eliminate the worst abuses of the insurance industry, and work to control health care costs. And even without the CLASS program's up-front revenue, the Affordable Care Act will reduce the deficit.

We will continue our work to improve Americans' long-term care choices. One of the main reasons we decided not to move forward with CLASS at this time is that we know no one would be hurt more if CLASS started and failed than the people who had paid into it and were counting on it the most. As prudent stewards of taxpayer dollars and the people we serve, we simply cannot let that happen.

By 2020, we know that an estimated 15 million Americans will need long-term care. If we want our family members, friends, and neighbors to be able to live with the maximum amount of freedom and independence, we need to make sure they have access to the long-term supports that make that possible. We will continue to work with the Congress, advocates, health

care providers, employers, insurers and other stakeholders to ensure that all Americans have access to long-term care choices that best meet their needs.

While we have had to suspend our work on implementing CLASS, we remain committed to making sure that people will be able to get the long-term care they need, whether it is a working-age mom with disabilities who needs daily support right now or a young man at his first job who wants to protect himself and his family against the possibility of financially-consuming long-term care costs in the future.

We believe that our work on CLASS implementation has shed valuable light on the need for workable solutions to our long-term care challenges. We want to have a healthy and substantive dialogue with all interested stakeholders, including people with disabilities, workers trying to plan for their future, private insurers, and Members of Congress as we continue to seek real solutions. This is a challenge that we must work to solve as a nation. For that reason, we welcome the opportunity to discuss this important topic with you today.

Thank you for the opportunity to testify. I will be happy to answer any questions you may have.